

House of Representatives, April 16, 1998. The Committee on Finance, Revenue and Bonding reported through REP. SCHIESSL, 60th DIST., Chairman of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING FINANCIAL MATTERS RELATING TO INSTITUTIONS OF HIGHER EDUCATION.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (a) Notwithstanding the provisions
2 of any section of the general statutes or any
3 special act, the state of Connecticut, acting by
4 the State Treasurer, may convey to the city of New
5 Britain a tract of land located in the city of New
6 Britain on the campus of Central Connecticut State
7 University between Maloney Hall and Welte Hall and
8 the city of New Britain may accept the conveyance
9 for the sole purpose of constructing on such land
10 a parking garage at Central Connecticut State
11 University.

12 (b) The city of New Britain, acting by and
13 through the New Britain parking authority,
14 notwithstanding any provisions of the general
15 statutes, the charter of the city of New Britain,
16 any special act or ordinance, or any other
17 provision of law including local zoning laws, may
18 in consultation with the Board of Trustees of the
19 Connecticut State University System or its
20 designated representatives, and subject to the
21 approval of the said board of trustees, prepare

22 plans and specifications for the construction of
23 the parking garage and may construct such garage.

24 (c) The state of Connecticut, acting by the
25 Board of Trustees for the Connecticut State
26 University System, represented by its chairman or
27 other officer so designated by resolution of the
28 board, and the city of New Britain, acting by the
29 New Britain parking authority, represented by its
30 chairman or other officer so designated by
31 resolution of the authority, may execute a lease
32 to the Board of Trustees for the Connecticut State
33 University System for a period of twenty-five
34 years, notwithstanding any other provision of the
35 general statutes concerning lease periods,
36 pursuant to a net lease which requires the lessee
37 to pay all expenses of operation, maintenance,
38 repairs and insurance, and an annual rental
39 sufficient to pay the principal of such bonds,
40 together with the interest on such bonds, as shall
41 be issued by the city of New Britain pursuant to
42 subdivision (2) of subsection (d) of this section.

43 (d) (1) The common council of the city of New
44 Britain may provide, by ordinance, for the
45 issuance of general obligation bonds and notes in
46 an amount not exceeding twelve million dollars to
47 finance construction of the parking garage and
48 appurtenant facilities at Central Connecticut
49 State University. Notwithstanding the provisions
50 of sections 7-206 and 7-371 of the general
51 statutes or any other provision of law, such bonds
52 shall be dated, shall bear interest at a rate or
53 rates not exceeding seven per cent per annum, and
54 shall mature at such time or times over a period
55 not exceeding twenty-five years from their date on
56 a maturity schedule that will substantially
57 equalize the payment of principal and interest
58 annually, as may be provided by the common council
59 prior to the issuance of such bonds. The common
60 council shall determine the form of such bonds,
61 including any interest coupons to be attached to
62 the bonds, the manner of execution of the bonds
63 and the bank or trust company to act as certifying
64 agent, and shall fix the denominations of such
65 bonds and the place or places of payment of
66 principal and interest on the bonds. All bonds
67 issued under the provisions of this section shall
68 be negotiable instruments under the provisions of
69 the general statutes and shall be exempt, both as

70 to principal and interest, from taxation by the
71 state of Connecticut or any subdivision of the
72 state. Such bonds may be sold in such manner and
73 for such price as is determined to be for the best
74 interest of the city, but no such sale shall be
75 made at a price so low as to require the payment
76 of interest on the money received therefor at more
77 than seven per cent per annum, computed with
78 relation to the absolute maturity or maturities of
79 the bonds in accordance with standard tables of
80 bond values.

81 (2) Bonds and notes issued under the
82 provisions of this section shall not be subject to
83 any statutory limitation on the indebtedness of
84 the city and such bonds and notes when issued
85 shall not be included in computing the aggregate
86 indebtedness of the city in respect of any such
87 limitation.

88 (e) The city shall convey the land with the
89 parking garage and appurtenant facilities to the
90 Board of Trustees for the Connecticut State
91 University System without consideration but only
92 after receipt of sufficient funds to the principal
93 of and interest on said bonds and only when the
94 terms and conditions of the lease agreement
95 entered into between the Board of Trustees for the
96 Connecticut State University System and the city
97 of New Britain, acting by the New Britain parking
98 authority, shall have been fully performed.

99 Sec. 2. (a) Notwithstanding the provisions of
100 any section of the general statutes or any special
101 act, the state of Connecticut, acting by the State
102 Treasurer, may convey to the city of New Haven a
103 tract of land located in the city of New Haven on
104 the campus of Southern Connecticut State
105 University known as parking lot two and the city
106 of New Haven may accept such conveyance for the
107 sole purpose of constructing on such land a
108 parking garage at Southern Connecticut State
109 University.

110 (b) The city of New Haven, acting by and
111 through the New Haven parking authority,
112 notwithstanding any provisions of the general
113 statutes, the charter of the city of New Haven,
114 any special act or ordinance, or any other
115 provision of law including local zoning laws, may,
116 in consultation with the Board of Trustees of the
117 Connecticut State University System or its

118 designated representatives, and subject to the
119 approval of the said board of trustees, prepare
120 plans and specifications for the construction of
121 the parking garage and may construct such garage.

122 (c) The state of Connecticut, acting by its
123 Board of Trustees for the Connecticut State
124 University System, represented by its chairman or
125 other officer so designated by resolution of the
126 said board, and the city of New Haven, acting by
127 the New Haven parking authority, represented by
128 its chairman or other officer so designated by
129 resolution of the authority, may execute a lease
130 to the Board of Trustees for the Connecticut State
131 University System for a period of twenty-five
132 years, notwithstanding any other provision of the
133 general statutes concerning lease periods,
134 pursuant to a net lease which requires the lessee
135 to pay all expenses of operation, maintenance,
136 repairs and insurance, and an annual rental
137 sufficient to pay the principal of such bonds,
138 together with the interest on such bonds, as shall
139 be issued by the city of New Haven pursuant to
140 subdivision (2) of subsection (d) of this section.

141 (d) (1) The common council of the city of New
142 Haven is authorized to provide, by ordinance, for
143 the issuance of general obligation bonds and notes
144 in an amount not exceeding nine million dollars to
145 finance construction of the parking garage and
146 appurtenant facilities at Southern Connecticut
147 State University. Notwithstanding the provisions
148 of sections 7-206 and 7-371 of the general
149 statutes or any other provision of law, such bonds
150 shall be dated, shall bear interest at a rate or
151 rates not exceeding seven per cent per annum, and
152 shall mature at such time or times over a period
153 not exceeding twenty-five years from their date on
154 a maturity schedule that will substantially
155 equalize the payment of principal and interest
156 annually, as may be provided by the common council
157 prior to the issuance of such bonds. The common
158 council shall determine the form of such bonds,
159 including any interest coupons to be attached to
160 the bonds, the manner of execution of the bonds
161 and the bank or trust company to act as certifying
162 agent, and shall fix the denominations of such
163 bonds and the place or places of payment of
164 principal and interest on the bonds. All bonds
165 issued under the provisions of this section shall

166 be negotiable instruments under the provisions of
167 the general statutes and shall be exempt, both as
168 to principal and interest, from taxation by the
169 state of Connecticut or any subdivision of the
170 state. Such bonds may be sold in such manner and
171 for such price as is determined to be for the best
172 interest of the city, but no such sale shall be
173 made at a price so low as to require the payment
174 of interest on the money received therefor at more
175 than seven per cent per annum, computed with
176 relation to the absolute maturity or maturities of
177 the bonds in accordance with standard tables of
178 bond values.

179 (2) Bonds and notes issued under the
180 provisions of this section shall not be subject to
181 any statutory limitation on the indebtedness of
182 the city and such bonds and notes when issued
183 shall not be included in computing the aggregate
184 indebtedness of the city in respect of any such
185 limitation.

186 (e) The city shall convey the land with the
187 parking garage and appurtenant facilities to the
188 Board of Trustees for the Connecticut State
189 University System, without consideration but only
190 after receipt of sufficient funds to the principal
191 of and interest on said bonds and only when the
192 terms and conditions of the lease agreement
193 entered into between the Board of Trustees for the
194 Connecticut State University System and the city
195 of New Haven, acting by the New Haven parking
196 authority, shall have been fully performed.

197 Sec. 3. Subdivision (20) of subsection (a) of
198 section 12-701 of the general statutes, as amended
199 by section 9 of public act 97-309, is repealed and
200 the following is substituted in lieu thereof:

201 (20) "Connecticut adjusted gross income"
202 means adjusted gross income, with the following
203 modifications: (A) There shall be added thereto
204 (i) to the extent not properly includable in gross
205 income for federal income tax purposes, any
206 interest income from obligations issued by or on
207 behalf of any state, political subdivision
208 thereof, or public instrumentality, state or local
209 authority, district or similar public entity,
210 exclusive of such income from obligations issued
211 by or on behalf of the state of Connecticut, any
212 political subdivision thereof, or public
213 instrumentality, state or local authority,

214 district or similar public entity created under
215 the laws of the state of Connecticut and exclusive
216 of any such income with respect to which taxation
217 by any state is prohibited by federal law, (ii)
218 any exempt-interest dividends, as defined in
219 Section 852(b)(5) of the Internal Revenue Code,
220 exclusive of such exempt-interest dividends
221 derived from obligations issued by or on behalf of
222 the state of Connecticut, any political
223 subdivision thereof, or public instrumentality,
224 state or local authority, district or similar
225 public entity created under the laws of the state
226 of Connecticut and exclusive of such
227 exempt-interest dividends derived from
228 obligations, the income with respect to which
229 taxation by any state is prohibited by federal
230 law, (iii) any interest or dividend income on
231 obligations or securities of any authority,
232 commission or instrumentality of the United States
233 which federal law exempts from federal income tax
234 but does not exempt from state income taxes, (iv)
235 to the extent included in gross income for federal
236 income tax purposes for the taxable year, the
237 total taxable amount of a lump sum distribution
238 for the taxable year deductible from such gross
239 income in calculating federal adjusted gross
240 income, (v) to the extent properly includable in
241 determining the net gain or loss from the sale or
242 other disposition of capital assets for federal
243 income tax purposes, any loss from the sale or
244 exchange of obligations issued by or on behalf of
245 the state of Connecticut, any political
246 subdivision thereof, or public instrumentality,
247 state or local authority, district or similar
248 public entity created under the laws of the state
249 of Connecticut, in the income year such loss was
250 recognized, (vi) to the extent deductible in
251 determining federal adjusted gross income, any
252 income taxes imposed by this state, (vii) to the
253 extent deductible in determining federal adjusted
254 gross income, any interest on indebtedness
255 incurred or continued to purchase or carry
256 obligations or securities the interest on which is
257 exempt from tax under this chapter, [and] (viii)
258 expenses paid or incurred during the taxable year
259 for the production or collection of income which
260 is exempt from taxation under this chapter or the
261 management, conservation or maintenance of

262 property held for the production of such income,
263 and the amortizable bond premium for the taxable
264 year on any bond the interest on which is exempt
265 from tax under this chapter to the extent that
266 such expenses and premiums are deductible in
267 determining federal adjusted gross income AND (ix)
268 ANY INTEREST, DIVIDEND OR INCOME OF ANY KIND
269 DERIVED FROM A QUALIFIED STATE TUITION PROGRAM
270 EXCLUSIVE OF ANY INTEREST, DIVIDEND OR INCOME OF
271 ANY KIND DERIVED FROM A QUALIFIED STATE TUITION
272 PROGRAM ESTABLISHED AND MAINTAINED BY THE STATE OF
273 CONNECTICUT OR ANY OFFICIAL, AGENCY OR
274 INSTRUMENTALITY OF THE STATE. (B) There shall be
275 subtracted therefrom (i) to the extent properly
276 includable in gross income for federal income tax
277 purposes, any income with respect to which
278 taxation by any state is prohibited by federal
279 law, (ii) to the extent allowable under section
280 12-718, exempt dividends paid by a regulated
281 investment company, (iii) the amount of any refund
282 or credit for overpayment of income taxes imposed
283 by this state, or any other state of the United
284 States or a political subdivision thereof, or the
285 District of Columbia or any province of Canada, to
286 the extent properly includable in gross income for
287 federal income tax purposes, (iv) to the extent
288 properly includable in gross income for federal
289 income tax purposes, any tier 1 railroad
290 retirement benefits, (v) with respect to any
291 natural person who is a shareholder of an S
292 corporation which is carrying on, or which has the
293 right to carry on, business in this state, as said
294 term is used in section 12-214, the amount of such
295 shareholder's pro rata share of such corporation's
296 nonseparately computed items, as defined in
297 Section 1366 of the Internal Revenue Code, that is
298 subject to tax under chapter 208, in accordance
299 with subsection (c) of section 12-217, AS AMENDED,
300 multiplied by such corporation's apportionment
301 fraction, if any, as determined in accordance with
302 section 12-218, AS AMENDED, (vi) to the extent
303 properly includable in gross income for federal
304 income tax purposes, any interest income from
305 obligations issued by or on behalf of the state of
306 Connecticut, any political subdivision thereof, or
307 public instrumentality, state or local authority,
308 district or similar public entity created under
309 the laws of the state of Connecticut, (vii) to the

310 extent properly includable in determining the net
311 gain or loss from the sale or other disposition of
312 capital assets for federal income tax purposes,
313 any gain from the sale or exchange of obligations
314 issued by or on behalf of the state of
315 Connecticut, any political subdivision thereof, or
316 public instrumentality, state or local authority,
317 district or similar public entity created under
318 the laws of the state of Connecticut, in the
319 income year such gain was recognized, (viii) any
320 interest on indebtedness incurred or continued to
321 purchase or carry obligations or securities the
322 interest on which is subject to tax under this
323 chapter but exempt from federal income tax, to the
324 extent that such interest on indebtedness is not
325 deductible in determining federal adjusted gross
326 income and is attributable to a trade or business
327 carried on by such individual, (ix) ordinary and
328 necessary expenses paid or incurred during the
329 taxable year for the production or collection of
330 income which is subject to taxation under this
331 chapter but exempt from federal income tax, or the
332 management, conservation or maintenance of
333 property held for the production of such income,
334 and the amortizable bond premium for the taxable
335 year on any bond the interest on which is subject
336 to tax under this chapter but exempt from federal
337 income tax, to the extent that such expenses and
338 premiums are not deductible in determining federal
339 adjusted gross income and are attributable to a
340 trade or business carried on by such individual
341 and (x) an amount equal to the difference between
342 the amount of Social Security benefits includable
343 for federal income tax purposes under the
344 provisions of Section 13215 of the Omnibus Budget
345 Reconciliation Act of 1993 and fifty per cent of
346 the amount of such Social Security benefits
347 includable for federal income tax purposes under
348 the provisions of the Internal Revenue Code of
349 1986, or any subsequent corresponding internal
350 revenue code of the United States, as from time to
351 time amended, prior to August 10, 1993. With
352 respect to a person who is the beneficiary of a
353 trust or estate, there shall be added or
354 subtracted, as the case may be, from adjusted
355 gross income such person's share, as determined
356 under section 12-714, in the Connecticut fiduciary
357 adjustment.

358 Sec. 4. Section 7 of public act 97-224 is
359 repealed and the following is substituted in lieu
360 thereof:

361 The property of the trust and the earnings on
362 the trust shall be exempt from all taxation by the
363 state and all political subdivisions of the state.
364 THE CONTRIBUTIONS AND DEPOSITS TO AND THE
365 DISBURSEMENTS FROM THE TRUST TO, OR ON BEHALF OF,
366 THE DESIGNATED BENEFICIARY TO THE EXTENT APPLIED
367 FOR QUALIFIED EXPENSES SHALL BE EXEMPT FROM ALL
368 TAXATION BY THE STATE AND ALL POLITICAL
369 SUBDIVISIONS OF THE STATE.

370 Sec. 5. Section 3-31b of the general statutes
371 is repealed and the following is substituted in
372 lieu thereof:

373 (a) Notwithstanding any contrary provision of
374 law, the State Treasurer may establish one or more
375 combined investment funds for the purpose of
376 investing funds for which the Treasurer is
377 custodian or trustee, OR FUNDS WHICH THE BOARDS OF
378 TRUSTEES OF THE UNIVERSITY OF CONNECTICUT, THE
379 CONNECTICUT STATE UNIVERSITY SYSTEM OR THE
380 REGIONAL COMMUNITY-TECHNICAL COLLEGES REQUEST THE
381 TREASURER TO INVEST PURSUANT TO THIS SECTION,
382 provided the Treasurer shall adopt appropriate
383 accounting procedures from which the exact
384 interest of such funds so combined for investment
385 can be determined. The State Treasurer is
386 authorized to sell to all agencies,
387 instrumentalities and political subdivisions of
388 the state, participation units in any such
389 combined investment fund established by him
390 pursuant to this section. Such participation units
391 issued by the Treasurer under the provisions of
392 this section are made legal investments for all
393 the funds of, held by or administered by all
394 agencies, instrumentalities and political
395 subdivisions of the state. The Treasurer may adopt
396 such rules and regulations as may be necessary to
397 administer the provisions of this section.

398 (b) All costs of operating each such combined
399 investment fund, including the cost of personnel
400 and contractual services shall be paid by the
401 Treasurer charging the income derived from said
402 fund.

403 Sec. 6. Subsection (a) of section 5 of public
404 act 97-293 is repealed and the following is
405 substituted in lieu thereof:

406 (a) (1) The Board of Trustees of the
407 Connecticut State University System shall
408 establish a permanent Endowment Fund for the
409 Connecticut State University System to encourage
410 donations from the private sector, with an
411 incentive in the form of an endowment fund state
412 grant, the net earnings on the principal of which
413 are dedicated and made available to a state
414 university or the Connecticut State University
415 system as a whole, for endowed professorships,
416 scholarships and programmatic enhancements. The
417 fund shall be administered by the board of
418 trustees, or by a nonprofit entity entrusted for
419 such purpose and qualified as a Section 501(c)(3)
420 organization under the Internal Revenue Code of
421 1986, or any subsequent corresponding internal
422 revenue code of the United States, as from time to
423 time amended, and preferably constituted and
424 controlled independent of the state and university
425 so as to qualify the interest on state bonds the
426 proceeds of which have been granted for deposit in
427 the endowment fund as excludable from federal
428 taxation under such code and shall, in any event,
429 be held in a trust fund [with a bank or trust
430 company] separate and apart from all other funds
431 and accounts of the state and university. There
432 shall be deposited into the fund: (A) Endowment
433 fund state grants; and (B) interest or other
434 [income earned on] EARNING FROM the investment of
435 moneys in the endowment fund pending application
436 or transfer or use of earnings on the principal of
437 the fund for the purposes identified in this
438 subdivision. Endowment fund eligible gifts made on
439 behalf of a state university or the system as a
440 whole shall be deposited in a permanent endowment
441 fund created for each such state university and
442 the system as a whole in the appropriate
443 foundation established pursuant to sections 4-37e
444 and 4-37f. A portion of the interest income earned
445 on investments in the endowment fund established
446 pursuant to this section to be used for the
447 purposes described in this subdivision shall be
448 transferred to such a state university endowment
449 fund based on the ratio of the total amount of
450 such gifts made to such state university to the
451 total amount of all such gifts made to all the
452 state universities and the system as a whole.

453 (2) For each of the fiscal years ending June
454 30, 2000, to June 30, 2009, inclusive, as part of
455 the state contract with donors of endowment fund
456 eligible gifts, the Department of Higher
457 Education, in accordance with section 1 of [this
458 act] PUBLIC ACT 97-293, shall deposit in the
459 Endowment Fund for the Connecticut State
460 University System a grant in an amount equal to
461 half of the total amount of endowment fund
462 eligible gifts received by or for the benefit of
463 the Connecticut State University system as a whole
464 and each state university for the calendar year
465 ending the December thirty-first preceding the
466 commencement of such fiscal year, as certified by
467 the chairperson of the board of trustees by
468 February fifteenth to (A) the Secretary of the
469 Office of Policy and Management, (B) the joint
470 standing committee of the General Assembly having
471 cognizance of matters relating to appropriations
472 and the budgets of state agencies, and (C) the
473 Commissioner of Higher Education, provided such
474 sums do not exceed the endowment fund state grant
475 maximum commitment for the fiscal year in which
476 the grant is made. In any such fiscal year in
477 which the total of the eligible gifts received by
478 the Connecticut State University system as a whole
479 and each state university exceed the endowment
480 fund state grant maximum commitment for such
481 fiscal year the amount in excess of such endowment
482 fund state grant maximum commitment shall be
483 carried forward and be eligible for a matching
484 state grant in any succeeding fiscal year from the
485 fiscal year ending June 30, 2000, to the fiscal
486 year ending June 30, 2009, inclusive, subject to
487 the endowment fund state grant maximum commitment.

488 (3) The Board of Trustees of the Connecticut
489 State University System shall adopt, by October 1,
490 1997, guidelines with respect to (A) the
491 solicitation of endowment fund eligible gifts from
492 private donors, and (B) governing the acceptance
493 of gifts made by a foundation established pursuant
494 to sections 4-37e and 4-37f, to a state university
495 or its employees for reimbursement of expenditures
496 or payment of expenditures on behalf of a state
497 university or its employees. Private donations
498 shall not be construed to include proceeds of
499 federal grants but may include proceeds of
500 municipal grants.

501 Sec. 7. This act shall take effect July 1,
502 1998.

503 ED COMMITTEE VOTE: YEA 31 NAY 0 JFS C/R FIN
504 FIN COMMITTEE VOTE: YEA 45 NAY 0 JFS

* * * * *

"THE FOLLOWING FISCAL IMPACT STATEMENT AND BILL ANALYSIS ARE PREPARED FOR THE BENEFIT OF MEMBERS OF THE GENERAL ASSEMBLY, SOLELY FOR PURPOSES OF INFORMATION, SUMMARIZATION AND EXPLANATION AND DO NOT REPRESENT THE INTENT OF THE GENERAL ASSEMBLY OR EITHER HOUSE THEREOF FOR ANY PURPOSE."

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FISCAL IMPACT STATEMENT - BILL NUMBER SHB 5382

STATE IMPACT	Revenue Loss (General Fund), Potential Gain (Educational Funds), see explanation below
MUNICIPAL IMPACT	See Explanation Below
STATE AGENCY(S)	Department of Revenue Services, Office of the State Treasurer, Connecticut State University System

EXPLANATION OF ESTIMATES:

STATE IMPACT: PA 97-224, An Act Concerning a College Savings Program, permits Connecticut taxpayers to take advantage of a 1996 federal tax law change which postpones taxation of interest earned on investments in qualified state higher education tuition plans. Under the provisions of PA 97-224, state income tax is due on the principal before it is invested in a Connecticut Higher Education Trust (CHET) but the interest earned on the principal is not taxable until it is withdrawn by the recipient. The tax rate on the interest is that of the recipient.

It is unclear whether the current bill is exempting both (1) disbursements made from CHETs for educational purposes, and (2) contributions made to CHETs, from the Connecticut Personal Income Tax (CPIT).

If only disbursements made for educational purposes from CHETs are exempted from CPIT, CHET contributions would still be made with after-tax dollars. This provision is not expected to result in a significant revenue loss because most CHET recipients probably fall

below the threshold for state taxation or are taxed at a low rate.

However, if contributions made to CHETS are exempted from CPIT, the provision will result in a very significant revenue loss because the tax bracket of CHET contributors is expected to be considerably higher. The amount of the revenue loss cannot be estimated because it is not known how many taxpayers would choose to participate in the program.

Allowing the universities and community-technical colleges to invest funds in the combined investment funds will potentially increase the rate of return on these funds.

Conveying a parcel of land in: (1) New Britain for a parking garage at Central Connecticut State University, and (2) in New Haven for a parking garage at Southern Connecticut State University, will result in a loss of asset value to the state.

The bonds issued by New Britain and New Haven to finance construction of the parking garages will not have an impact on General Fund debt service because the bonds are not obligations of the state.

MUNICIPAL IMPACT: New Britain and New Haven will incur a cost to issue bonds, as well as debt service costs, when the cities finance construction of the parking garages. Depending on the terms of the lease agreements entered into with the universities, the payments made to the cities may cover cost of bond issuance as well as debt service.

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OLR BILL ANALYSIS

sHB 5382

AN ACT CONCERNING FINANCIAL MATTERS RELATING TO INSTITUTIONS OF HIGHER EDUCATION

SUMMARY: This bill:

1. makes income from Connecticut's college tuition savings program, known as the

Connecticut Higher Education Trust (CHET), state income tax-free instead of tax-deferred;

2. appears to exempt all money contributed to, as well as certain disbursements from, CHET from state and local taxes (see COMMENT);
3. appears to make interest, dividends, or income earned from any other state's college tuition savings program taxable in Connecticut as regular income when it is earned instead of on a deferred basis;
4. allows the state treasurer to convey one parcel of property each to New Britain and New Haven to allow them to build parking garages for Central and Southern Connecticut State universities, respectively;
5. authorizes New Britain to bond \$12 million and New Haven \$9 million for the garages, allows them to lease the garages to Connecticut State University (CSU) for the cost of their operation plus the cost of paying off the bonds, and requires them to give the land and the garages back to the state when the lease ends;
6. allows UConn, CSU, and the regional community-technical colleges to ask the treasurer to invest their funds in the state's longer-term combined investment funds instead of just in the Short Term Investment Fund;
7. allows CSU more flexibility in managing its endowment fund by eliminating a requirement that it be held in trust with a bank and trust company; and
8. makes technical changes.

EFFECTIVE DATE: July 1, 1998

FURTHER EXPLANATION

CHET Tax Changes

Under federal and state law, state and local taxes on

money deposited in qualified state tuition programs such as CHET and interest it earns while in the trust are deferred until it is withdrawn. At that time, the funds are taxable at the beneficiary's rate. A beneficiary can be (1) any state resident designated in a participation agreement, (2) a subsequently designated family member, (3) someone receiving a scholarship from interests in the trust purchased by a government or tax-exempt charitable organization, or (4) any other designated beneficiary enrolled in the trust.

The bill allows taxpayers to exclude interest, dividends, or other income they receive from CHET from their adjusted gross income for state income tax purposes. It also explicitly requires them to include such income received from any other state's program. Since such income is already taxable when disbursed to the beneficiary, it appears the bill requires the income earned from an out-of-state program to be taxed when it is accrued.

The bill also exempts CHET disbursements to, or on behalf of, beneficiaries from all state and local taxation when used for qualified higher education expenses, including tuition, fees, books, and equipment required to attend college or graduate school.

CSU Parking Garages

The bill allows the treasurer to convey two pieces of property, one on the CCSU campus and one on the SCSU campus, to New Britain and New Haven, respectively, to allow the cities to build parking garages at the two colleges. Subject to the CSU board's approval, it allows the New Britain and New Haven parking authorities and the CSU board of trustees or its representatives to prepare construction plans and specifications for the garages and to construct them.

Under the bill, the state, represented by the CSU board chairman or someone else designated by a board resolution, may agree to lease the garages from the cities, represented by their respective parking authority chairmen or some other person designated by resolution of the authorities, for 25 years. Under the lease, the state must agree to pay all expenses of maintaining, operating, repairing, and insuring the

garages plus sufficient rent to repay the principal and interest on bonds issued by the cities to finance their construction.

The bill allows the New Britain City Council and the New Haven Common Council to issue up to \$12 million and \$9 million in bonds, respectively, at no more than 7% interest to finance construction of the garages. The bonds must mature on a set date, no later than 25 years after issuance, that will make the annual payments of principal and interest substantially equal. The councils may set the maturity periods, form, manner of executing, the banks or trust companies to act as certifying agents, and the denominations of the bonds.

The bill makes the garage bonds negotiable instruments, exempt from state taxation. It allows the cities to sell them at the prices and in the manner that serves the cities' best interests. But it bars them from selling the bonds at a price so low as to require a higher interest rate than the maximum 7% specified in the bill. It excludes the garage bonds from statutory limits on municipal debt and bars them from being counted towards the municipality's indebtedness.

It requires the cities to give the garages and the land back to the state once the terms of the leases between the CSU board and the parking authorities have been fulfilled.

Investment Options for Higher Education Funds

The bill allows the UConn, CSU, and regional community-technical college boards to ask the treasurer to invest their funds in the combined investment funds he establishes to invest other state funds. The treasurer operates seven investment funds with varying degrees of financial risk ranging from a cash management fund to a venture capital fund.

The bill also gives CSU more flexibility in managing its endowment fund by eliminating the requirement that it be held in trust with a bank and trust company. Under the bill, the fund could be held in trust with some other type of financial institution such as a savings bank, savings and loan, financial services company, or a mutual fund company.

COMMENT**Possible Ambiguity and Conflicting Provisions**

Although the new language in Section 4 of the bill appears to allow taxpayers to make CHET contributions on a pre-tax basis, the legal effect is ambiguous because the bill does not exempt such contributions from Connecticut adjusted gross income.

In addition, Section 3 of the bill exempts interest or other income earned in CHET from the Connecticut income tax regardless of how it is spent. Section 4 exempts disbursements from the trust, which may include the interest or other income, from state and local taxes only to the extent the money is spent for qualified expenses.

COMMITTEE ACTION

Education Committee

Joint Favorable Substitute Change of Reference
Yea 31 Nay 0

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 45 Nay 0